

DEPARTMENT OF PUBLIC HEALTH AND HUMAN SERVICES TESTIMONY BEFORE THE  
HOUSE HUMAN SERVICES COMMITTEE  
JANUARY 24, 2007

**RE: HB 157** – “AN ACT REVISING EXCEPTIONS TO THE LIMIT ON THE STATE CHILDREN'S HEALTH INSURANCE PROGRAM ADMINISTRATIVE EXPENSES; CLARIFYING THAT FUNDS DEPOSITED IN THE STATE SPECIAL REVENUE ACCOUNT TO THE CREDIT OF THE STATE CHILDREN'S HEALTH INSURANCE PROGRAM MAY BE USED TO PAY CLAIMS; AMENDING SECTIONS 53-4-1007 AND 53-4-1012, MCA; AND PROVIDING AN EFFECTIVE DATE, A RETROACTIVE APPLICABILITY DATE, AND A CONTINGENT TERMINATION DATE.

HB 157 is introduced at the request of the Department of Public Health and Human Services. HB 157 proposes two changes to the current CHIP law. The sections in this bill which are being changed are Section I, (4), Lines 8-11 and Section 2, (2), line 29.

**Section I, (4), Lines 9-11** as proposed reads as follows:

If the department operates the program by providing administrative services under subsection (2) (a), (2)(c), or (2)(d), the department's administrative expense may not exceed the lesser of 10% of total program expenses or the applicable federal limitation, excluding costs for newly required federal administrative expenses imposed after July 1, 2006, and federally required audits.

The reason for the proposed language is that the Department believes that we may not be able to operate the CHIP program under the state-imposed 10% administrative cap. This 10% administrative cap was added to state statute by the 2005 legislature. Since 2006, the federal government has imposed new administrative and audit requirements related to the Payment Error Rate Measurement (PERM) program. PERM is a new federal mandate which requires audits every three years of claims and eligibility determinations. This requirement applies to Medicaid and CHIP programs in every state. The sample size for every state is the same (i.e. Montana must audit 700 claims and so must California and New York) which disproportionately affects small states.

Montana is designated for PERM review in FY2008, but administrative expenses to prepare for this claim and eligibility determination review begins in SFY07. The department estimates PERM-related costs for CHIP will exceed \$365,000 over a three year period (SFY 07 – SFY09). There is not a fiscal note on this bill, because the costs associated with the PERM function for both Medicaid and CHIP are requested in House Bill 2 by the Quality Assurance Division. This is the Division that will actually perform the CHIP PERM review.

PERM cost and implementation has caused concern among all states due to projected costs. DPHHS has worked extensively with the Center for Medicare and Medicaid Services (CMS), as well as the Montana Congressional delegation to find ways to lessen the fiscal impact of PERM on Montana. These efforts continue but to date are unsuccessful.

**Section 2, (2), line 29** as proposed reads as follows:

Money deposited in this account must be used by the department to cover additional children, to expand eligibility within the limits provided in 53-4-1004, to reduce or maintain premiums, to pay claims, or to establish and maintain a reserve.

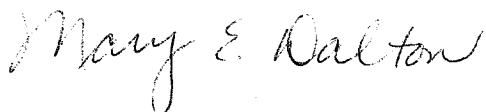
The reason for the addition of "to pay claims" to this section is that up until September 2006 DPHHS had a fully insured contract with Blue Cross Blue Shield of Montana (BCBSMT) and paid a monthly premium for each child enrolled in CHIP. Beginning October 2006, DPHHS entered into a Third Party Administrative (TPA) contract with BCBSMT.

The change to a TPA contract was the result of a commitment to develop the most cost effective way to provide health coverage to children enrolled in CHIP. The state special revenue fund was established when CHIP was a fully insured program and the contractor was responsible for paying claims.

Under the current TPA contract, DPHHS is responsible to pay medical claims for services provided to CHIP children. Therefore, the language must be amended to reflect claims payment as an appropriate use for state special revenue funds.

I am hoping that you will look favorably upon this bill. The Department is committed to doing everything in its power to keep administrative costs under 10%. If the bill does not pass, however, and our costs exceed the 10% cap, we will have to cut administrative costs in order to pay PERM-related costs. The majority of the administrative costs in the CHIP program are for our automated eligibility system, our provider network, and claims administration costs. The Department contracts for these services and has limited control over their cost. The costs that the CHIP program has control over are our personnel costs. We would be forced to look at cutting about 1/3 of the CHIP staff. This would result in delayed processing of applications and enrollment of eligible children, poor customer service for CHIP children and CHIP providers, and escalating benefit costs because of limited ability to manage the program. I would be happy to answer any questions that you might have. Jackie Forba, the CHIP Bureau Chief is also available to answer questions.

Respectfully Submitted,



Mary E. Dalton, Administrator  
Health Resources Division